

## **MINUTES**

### **AUDIT SUBCOMMITTEE OF THE LEGISLATIVE MANAGEMENT COMMITTEE**

The Audit Subcommittee of the Legislative Management Committee met in Room 303, State Capitol Building, Salt Lake City, Utah, February 25, 2003, from 4:30 p.m. until 5:15 p.m.

**Committee Members Present:**

President Al Mansell, Co-Chairman  
Speaker Martin R. Stephens, Co-Chairman  
Senator Mike Dmitrich  
Representative Brent Goodfellow

**Legislative Audit Staff:**

Wayne L. Welsh, Auditor General  
John M. Schaff, Deputy Auditor General  
Tim Osterstock, Audit Manager  
Darin Underwood, Audit Supervisor  
Deanna Herring, Performance Auditor  
Ivan Djambov, Performance Auditor  
Aaron Eliason, Performance Auditor  
David Gibson, Sr Performance Auditor  
Lynda Maynard, Recording Secretary

**Other Interested Parties:**

Rod Marrelli, Ex Dir, Ut State Tax Comm  
Barry Conover, Deputy Ex Dir, Tax Comm  
Kevin Vanausdal, Dir, Tech Mgmt Div, Tax Co  
Rick Schwerauer, Courts  
Mark Jones, Courts  
Mike Christensen, Dir, Leg Research Gen Coun  
Dan Harrie, *Salt Lake Tribune*

#### **1. Call to Order**

Speaker Stephens called the meeting to order at 4:30 p.m.

#### **2. Approval of Minutes**

President Mansell made a motion that the minutes from the February 6<sup>th</sup> meeting be approved. The motion passed unanimously.

### **3. A Performance Audit of the UTAX Project** (Report #2003-02)

Presented by Darin Underwood, Audit Supervisor

The Utah State Tax Commission (Tax Commission) sought to improve their processes for administering the state's taxing abilities. They chose a modernization project which would deliver new computer systems capable of handling the \$4.6 billion in revenues. UTAX became the name of the new project endeavor. A private technology contractor was chosen to provide the needed systems for a target price of \$34 million. Utah ventured into the UTAX project aware that nationally, implementation of systems of this size frequently face many challenges.

**Audit Called for Full UTAX Project Review.** Due to the significant state funding invested in UTAX, the Legislature asked us to review the project. Specifically, the audit scope and objectives were to:

- Review project funding and resources used.
- Determine what computer systems were purchased in connection with the UTAX project.
- Review communication of the project's progress to the Legislature, Governor, and Tax Commissioners.

During our review of UTAX, we became concerned about specific aspects of the contract and management's enforcement of the contract. We believe project management should have held the contractor more accountable. We believe the Tax Commission may have been able to issue monetary penalties against the contractor for delays and defaults of project systems, yet failed to do so. We were also concerned about the target price under the contract. We believe there was no basis for the price, which led to over-funding of the UTAX project.

In addition, after reviewing costs associated with the UTAX project, we found the project was costly. We believe it is unlikely the project could have been completed within the target price.

The Tax Commission contracted to receive three systems from the contractor. Those three systems were:

1. Advantage Revenue (ADVR) — to provide integration between the different tax types, compliance tracking and the underlying accounting functions of the system,
2. Motor Vehicle Administration (MVA) — to provide a streamlined vehicle registration and title system, and
3. Computer Assisted Collection System for Government (CACSG)— to provide a modernized collections system designed to increase delinquent tax collections.

Both MVA and CACSG do offer some solutions to the Tax Commission's systems problems; however, the systems faced problems during implementation. In addition, ADVR was dropped entirely:

- Advantage Revenue was abandoned after the Tax Commission spent \$3.8 million analyzing

the product and planning for its implementation. The Tax Commission says the software was not as developed as they were led to believe.

- MVA was delayed by two years. However, MVA does offer an improvement over the previous registration system. For example, it allows real-time data entry and quicker title turn-around.
- Initially, CACSG required several upgrades before the system worked as expected. However, CACSG offers several benefits in delinquent tax collection. For example, CACSG will help collections agents contact more taxpayers and has the potential to improve future productivity. CACSG offers case consolidation, better case assignment and automation of labor intensive tasks.

In our final area we respond to a specific request by legislative leadership to clarify the initial expectation that \$20 million in annual revenues were anticipated from UTAX. We found that subsequent estimations were lowered to a range of \$6.7 to \$13.8 million annually. However, the actual increase in revenues, which the Tax Commission credits to UTAX, average \$4.3 million per year, which is much lower.

In further review of revenues, we specifically examined CACSG—the UTAX system responsible for increasing revenues. We question the Tax Commission’s report that CACSG has increased delinquent collections an average of \$4.3 million annually. We believe that the method the Tax Commission used to measure the benefits produced by CACSG is too broad because the measurement allows for the inclusion of delinquent tax collection revenues received before the CACSG system has any impact on the collection process.

### **Discussion following presentation:**

Rodney Marrelli, Executive Director, Utah State Tax Commission, introduced Barry Conover, Deputy Director of the Utah State Tax Commission and Kevin Vanausdal, Director of Technology Management for the Utah State Tax Commission.

Mr. Marrelli told the Audit Subcommittee that there were a number of points he wanted to make in response to the audit:

1. The model that was developed for the UTAX project was reasonable.
2. The Tax Commission was up front with the UTAX project.
3. Mistakes were made, in hindsight, but the Tax Commission felt they were making the best decision.
4. The old system at the Tax Commission was 20-25 years old and was outdated. An upgrade was needed before the old system crashed.
5. The Tax Commission signed the contract with the American Management System (AMS) at a target price but authorized each section of work based on a work order for specific deliverables.

6. The Tax Commission held payment from the vendor for fourteen months as a penalty for delays and undelivered projects and negotiated a \$700,000 deduction.
7. Multi-year projects have inherent problems, specifically personnel turnover.
8. The end result, while different from the original intent, is worth the investment.
9. The Tax Commission and citizens of Utah are better off for having the two new systems.

Motion: Senator Dmitrich made a motion that the **Performance Audit of the UTAX Project** (Report #2003-02) be accepted and sent to the Senate and House Revenue and Taxation Standing Committees and the Commerce and Revenue Joint Appropriations Subcommittee. The motion passed unanimously.

## **5. Audit Requests**

Wayne Welsh, Auditor General told the Audit Subcommittee that they would be given an Informal Letter Report on the University Hospital Fund Balance in a few days. This audit would not require a meeting.

## **6. Adjournment**

Speaker Stephens adjourned the meeting at 5:15 p.m.